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THE MAGAZINE FOR GROWING COMPANIES

Inc.®

RATING THE STATES
The Best and Worst Business Climates
PAGE 79

THE MAN WITH THE GOLDEN TOUCH

How Richard Melman Creates Restaurant Concepts That Never Fail

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PLUS

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The Succession Complex

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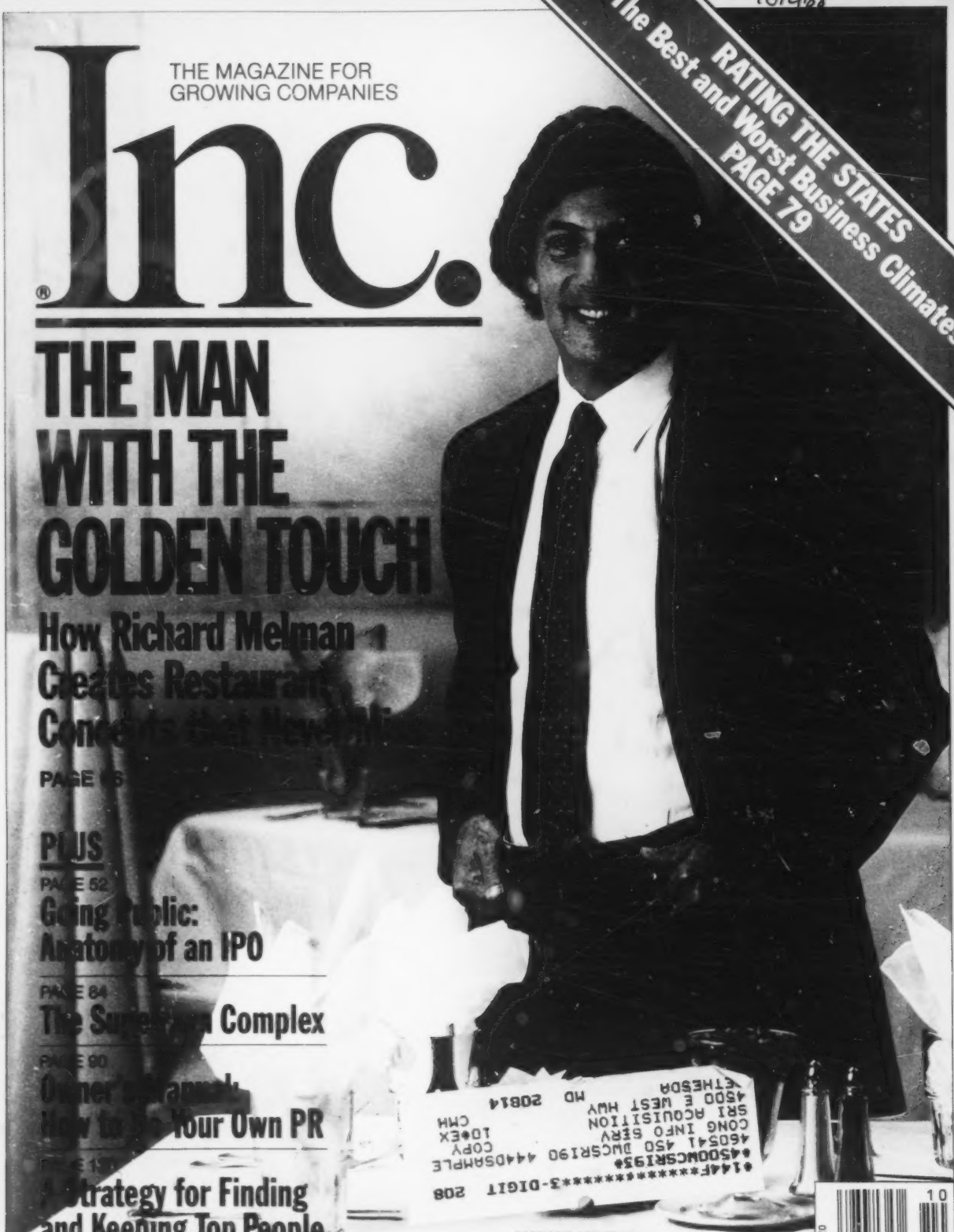

RICHARD MELMAN
FOUNDER OF LETTUCE ENTERTAIN YOU ENTERPRISES INC.

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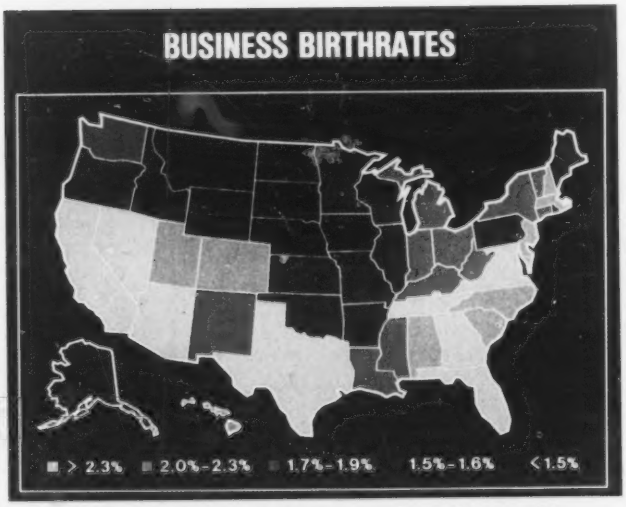
by
A. J. Bernstein

REPORT 1988 ON THE STATES

The nation's governors have had to innovate to keep their states from economic turmoil. Now, some of their ideas may be headed for Washington



Most of the states doing well in business creation are below the Mason-Dixon line. States in the north-central United States lag behind.

MAPS: IMAGEBUILDER DESIGN

Even if you're not from the state of Massachusetts, your governor is probably running for President this year.

At least that's how it may sound. Each time the candidates talk about investing in education or transferring technology, they are borrowing language heard first from governors. Call it trickle-up economics; this year, both candidates are adopting concepts that have been tested on the state level. "The governors have been on the firing line," says Douglas Henton, program manager at the Center for Economic Competitiveness at SRI International. "They've had to innovate."

This isn't the first time economic policy has been tried on a regional basis before being rolled out nationally. In his recent book *Laboratories of Democracy*, author David Osborne argues that the states also led the way at the turn of the century, coping with the country's shift from a rural to an industrial economy.

This time around, a declining industrial sector has forced many states to develop innovative programs. Pennsylvania (#28), for one, is beginning to crawl out from the rubble of the collapsed steel industry. It created a program using public money as a lure to coax more start-ups out of its technologically fertile universities (see "The New Role Models," October 1987). Likewise Michigan (#23) used small amounts of public money to create incentives for much larger amounts of private investment and tapped public pension money to fund new businesses.

Keep an eye on other states that are leveraging public money. Ohio (#25) offers matching grants for promising new companies and provides early support through incubators and research centers, hoping to attract corporate and venture capital. The state's public pension funds have invested about $140 million in new ventures since 1983. Indiana (#24) is offering tax credits to its citizens who invest in a venture capital fund that intends to support the state's businesses.

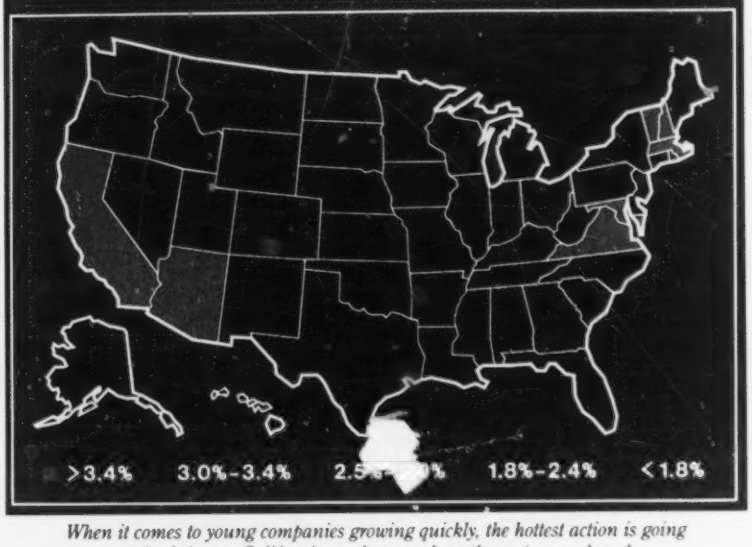
For some governors, the challenge has been finding new ways to shape economic growth. Arizona, #1 for three consecutive years, took off largely due to spillover from southern California and an ideal climate for testing electronics. But the state has sought ways to extend that growth. It financed a survey to determine which products and services big companies were buying outside the state, then launched a program to match these companies with local businesses.

Some of the broad concepts of state economic development could be adopted at the national level. First-rate universities, for instance, have played a role in boosting the economies of many states, such as California (#9), Texas (#20), and Massachusetts (#12). Now, Presidential candidate George Bush talks of becoming the "education President." And both Michael S. Dukakis and Bush have pushed the idea of creating public-private partnerships to transfer technology from universities to the private sector.

It appears that the states are leading the way. *—Joshua Hyatt*

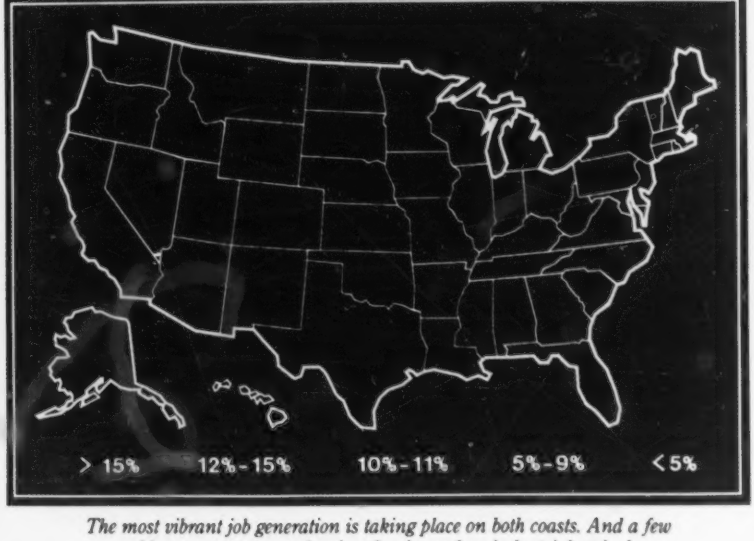
1988

FAST-GROWTH COMPANIES



When it comes to young companies growing quickly, the hottest action is going on in Arizona, California, and states along the eastern seaboard.

GROWTH IN JOBS



The most vibrant job generation is taking place on both coasts. And a few midwestern states are showing the signs of an industrial revival.

WHAT THE RANKINGS MEAN

This year's rankings measure how a state is actually doing in stimulating entrepreneurial activity and economic expansion. A state's position on the list reflects its economy's relative success, over a four-year period, in three areas: job generation, new-business creation, and young-company growth.

JOB GENERATION. The figures in columns 1 and 2, from the federal government's Bureau of Labor Statistics, indicate a state's gain (or loss) in private-sector and civilian public-sector employment between February 1984 and February 1988.

NEW BUSINESSES. The figures in column 4, compiled for the Report on the States by Cognetics Inc., in Cambridge, Mass., include all companies founded in 1984 or later that had at least 10 employees by January 1988. The "birthrate" in column 5 is this number divided by the total number of business establishments in the state.

YOUNG-COMPANY GROWTH. Column 7, also compiled by Cognetics, lists all the companies founded in 1980 or later that registered a growth index of at least 20 between the beginning of 1984 and the beginning of 1988. What's a growth index? Simply the company's *absolute* growth in employment multiplied by its *percentage* growth in employment (expressed as a decimal). Say you employed 50 people in January 1984 and 75 people in January 1988. Your growth index would be 25 x .50, or 12.5—not enough to make the list. Figuring growth in this way eliminates any bias in favor of large companies (which might have high absolute numbers) or small (which might have high percentage numbers).

Column 8 is the number of these young, fast-growing companies divided by all of a state's business establishments founded in 1980 or later.

SCORES. A state's scores (columns 3, 6, and 9) are computer-generated rankings that reflect how it stands in relation to all the other states. The top state in any one category gets a score of 33.33, the bottom state a score of one. Every other state is assigned a number reflecting its relative position on an imaginary scale between the top and the bottom. The top possible score is 100.

All scoring is based on a state's ranking in the percentage columns, not in the absolute-numbers columns. Column 10—the bottom line, so to speak—is the sum of the other three "score" columns.

RATING THE STATES 1988: NEW JOBS, NEW COMPANIES, AND THE CLIMATE FOR GROWTH

Rank/State (1987 rank)	No. New Jobs (in thou.)	Growth in Jobs	Score	No. New Companies	Business Birthrate	Score	No. Fast-Growth Companies	% Fast-Growth Companies	Score	Total Score
	1	2	3	4	5	6	7	8	9	10
1. ARIZONA (1)	267.9	23.30%	31.77	1,769	2.87%	33.17	451	4.00%	29.08	94.03
2. NEW HAMPSHIRE (2)	95.6	22.72	31.26	499	2.32	24.63	131	4.46	33.33	89.21
3. MARYLAND (3)	273.1	15.71	24.95	1,965	2.55	28.20	558	4.30	31.85	85.00
4. FLORIDA (6)	936.4	22.70	31.23	6,540	2.88	33.33	1,606	3.06	20.40	84.96
5. VIRGINIA (5)	463.3	20.65	29.39	2,292	2.53	27.89	602	3.83	27.51	84.79
6. GEORGIA (4)	420.9	17.86	26.88	2,983	2.79	31.93	665	3.43	23.82	82.63
7. DELAWARE (7)	56.2	21.06	29.76	246	2.25	23.54	64	3.95	28.62	81.92
8. NEVADA (10)	102.3	25.03	33.33	498	2.57	28.51	104	2.87	18.64	80.49
9. CALIFORNIA (8)	1,573.4	15.27	24.55	12,352	2.37	25.40	3,459	3.59	25.29	75.25
10. TENNESSEE (11)	273.7	15.60	24.85	1,872	2.41	26.02	417	3.06	20.40	71.27
11. NORTH CAROLINA (13)	400.1	15.99	25.20	2,137	2.17	22.29	504	3.37	23.26	70.75
12. MASSACHUSETTS (9)	282.8	10.26	20.04	2,335	1.95	18.87	619	3.91	28.25	67.17
13. VERMONT (18)	39.4	18.67	27.61	205	1.69	14.83	53	3.48	24.28	66.72
14. NEW JERSEY (17)	365.6	11.39	21.06	3,237	2.09	21.05	794	3.33	22.89	65.00
15. MAINE (26)	82.0	19.29	28.16	359	1.64	14.06	92	3.26	22.25	64.47
16. SOUTH CAROLINA (14)	183.2	14.95	24.26	1,141	2.23	23.23	214	2.54	15.59	63.08
17. HAWAII (20)	55.8	13.60	23.04	414	2.0	19.65	106	3.00	19.84	62.54
18. CONNECTICUT (16)	168.5	11.43	21.09	1,241	1.88	17.79	338	3.40	23.54	62.42
19. ALABAMA (21)	156.2	11.53	21.18	1,235	2.17	22.29	231	2.54	15.59	59.07
20. TEXAS (12)	185.5	2.93	13.44	8,289	2.58	28.67	1,732	2.60	16.15	58.26
21. WASHINGTON (24)	251.8	15.69	24.92	1,624	1.73	15.46	427	2.59	16.06	56.43
22. UTAH (15)	56.9	9.81	19.64	642	2.08	20.90	144	2.56	15.78	56.31
23. MICHIGAN (19)	395.8	12.04	21.65	2,752	1.67	14.52	743	2.98	19.66	55.83
24. INDIANA (25)	254.0	12.34	21.91	1,636	1.75	15.77	361	2.77	17.72	55.39
25. OHIO (23)	444.0	10.76	20.49	3,240	1.66	14.37	889	2.96	19.47	54.33
26. RHODE ISLAND (27)	44.4	11.07	20.77	316	1.44	10.95	95	3.30	22.61	54.33
27. NEW YORK (28)	673.6	9.13	19.02	6,734	1.77	16.08	1,741	2.93	19.20	54.30
28. PENNSYLVANIA (32)	378.5	8.36	18.33	3,469	1.64	14.06	864	3.20	21.69	54.08
29. MINNESOTA (29)	210.2	12.05	21.65	1,396	1.54	12.50	411	2.88	18.74	52.88
30. KENTUCKY (34)	160.6	13.71	23.15	1,194	1.86	17.48	210	2.13	11.81	52.43
31. COLORADO (22)	38.5	2.84	13.37	1,670	2.26	23.69	365	2.34	13.75	50.81
32. OREGON (33)	131.2	13.47	22.93	958	1.53	12.35	274	2.46	14.86	50.13
33. WISCONSIN (35)	207.7	11.09	20.79	1,408	1.48	11.57	349	2.55	15.69	48.05
34. ILLINOIS (36)	350.1	7.67	17.71	3,788	1.61	13.59	938	2.65	16.61	47.91
35. MISSOURI (31)	205.2	10.43	20.19	1,677	1.59	13.28	376	2.37	14.02	47.49
36. NEW MEXICO (30)	41.7	8.53	18.48	482	1.86	17.48	94	1.96	10.24	46.19
37. KANSAS (38)	64.7	6.89	17.01	948	1.63	13.90	202	2.34	13.75	44.66
38. MISSISSIPPI (40)	71.3	8.85	18.77	664	1.73	15.46	103	1.69	7.74	41.97
39. ARKANSAS (37)	82.9	10.89	20.60	657	1.52	12.19	129	1.83	9.04	41.83
40. WEST VIRGINIA (41)	13.8	2.39	12.96	479	1.74	15.61	68	1.94	10.05	38.62
41. NEBRASKA (43)	52.6	6.68	18.61	461	1.19	7.06	124	2.05	11.07	36.74
42. LOUISIANA (44)	-77.7	-4.95	6.35	1,430	1.8	16.54	289	1.90	9.68	32.58
43. IDAHO (42)	15.2	4.79	15.12	291	1.38	10.02	52	1.47	5.71	30.84
44. IOWA (46)	72.4	6.93	17.04	657	1.05	4.89	141	1.65	7.37	29.30
45. OKLAHOMA (47)	-83.0	-7.08	4.43	1,211	1.64	14.06	227	1.53	6.27	24.75
46. ALASKA (39)	-9.6	-4.62	6.65	187	1.53	12.35	32	1.33	4.42	23.42
47. SOUTH DAKOTA (45)	13.9	5.88	16.10	149	0.9	2.55	34	1.33	4.42	23.07
48. MONTANA (48)	-1.8	-0.67	10.21	257	1.12	5.97	49	1.15	2.76	18.94
49. NORTH DAKOTA (49)	3.2	1.30	11.98	159	1.02	4.42	22	0.96	1.00	17.40
50. WYOMING (50)	-21.2	-10.90	1.00	105	0.8	1.00	25	0.97	1.09	3.09

Chart compiled by special projects editor Sara Baer-Sinnott.

HANDS ON

A Manager's Notebook

FINANCE

ESOP LOANS

If your company already has an ESOP or is setting one up, you should have access to the low-interest loans that are among the program's benefits. If your banker isn't interested, you should know about a list of some 150 banks nationwide whose loan officers will be.

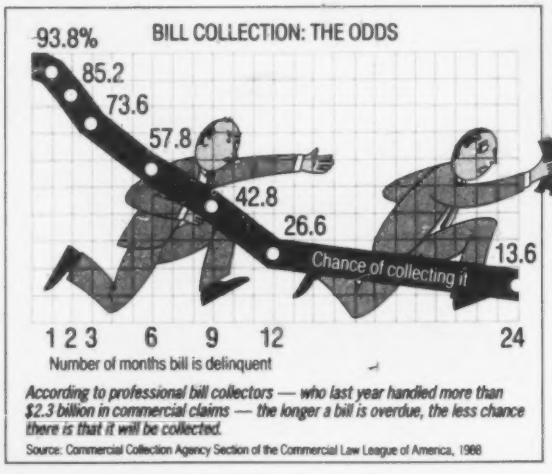
The booklet, published by The National Center for Employee Ownership (NCEO), names bankers who are eager to cash in on the 50% write-down of interest collected from ESOP loans, one of the few tax benefits to survive the 1986 Tax Reform Act. Far from being uncooperative, these bankers *want* ESOP business. And they'll offer the advertised lower rates to get it. ESOP-related lending is growing by 50% per year and totaled $5.7 billion in 1987. The booklet describes how ESOP loans work, features interviews with loan officers, and lists the banks state by state. Send $5 (the publication is free to members) to: NCEO, 426 17th St., Suite 650, Oakland CA 94612. □

SELLING

HIGHER PRICE, HIGHER SALES

Many CEOs are scared to death of pricing their products higher than those of their competitors—even if the competing products aren't of equivalent quality or usefulness. Walter Riley, who heads G.O.D. Inc., knows the feeling. But his own experience with pricing strategy, he says, has taught him that you shouldn't be afraid to charge more if you're confident you're offering more.

At G.O.D., an overnight freight business, a price boost was the key ingredient in a mix that led to meteoric growth. From its founding in 1983 until three years later, Riley kept his prices competitive with other truckers. "We were toe to toe with them," he says, "and we still weren't getting any new business." In 1986 the company began pricing at a 5%-to-7% premium, and the price change, along with a small acquisition, in one year brought sales from $3.8 million to $12.7 million. Charging a premium price, Riley says, meant instant credibility. It also differentiated G.O.D. from its competitors. "Raising our prices startled purchasing agents into seeing that we weren't just like our competitors. And they were willing to pay extra for overnight delivery." □



According to professional bill collectors — who last year handled more than $2.3 billion in commercial claims — the longer a bill is overdue, the less chance there is that it will be collected.

Source: Commercial Collection Agency Section of the Commercial Law League of America, 1988

OPERATIONS

GAME THEORY

Cost-cutting isn't fun no matter how you do it, but a little gamesmanship can help. When Sundance Spas, a Chino, Calif., plastic hot-tub-maker, launched a one-year program to reduce its cost of goods sold, it began with a rousing, companywide session of "The Price is Right."

"It taught purchasing agents in a few minutes why it's important to tell people the value of things," says CEO Ron Clark. In one instance, employees guessed that a plastic part frequently broken during manufacture cost only $2, and then discovered that its actual price was $32.40. "Just six weeks after they learned that, the production people came up with a two-piece design for the part. Now, when the piece has to be replaced, it costs us $2 rather than $32.40."

Almost across the board, Sundance employees were surprised by how much they'd underestimated costs, and many of them offered suggestions for savings. Says Clark: "If you've got to do some belt-tightening, I think the game is a lot more effective way to break the news than handing out a memo informing supervisors their budgets have been cut." □

EMPLOYEE RELATIONS

HOW TO ENCOURAGE SUGGESTIVE BEHAVIOR

Everybody pays lip service to the importance of incorporating employee suggestions into company operations. But how should the suggestions be collected in the first place? The old slotted box won't work—it makes management seem remote and can trivialize the ideas employees might contribute. Isn't there a better way?

The answer, says Terry Kirch, COO of Resource Information Management Systems Inc., a provider of turnkey software for healthcare administrators, is lunch. The four principals of the Naperville, Ill., company, which has more than 150 employees, make a point of hosting twice-monthly lunches that encourage workers to keep the suggestions coming.

Five employees—one from each department—are invited to each session. They discuss where there's room for improvement in the company, and what's needed to make their own departments run more efficiently. "It makes employees feel important, and we get invaluable feedback," says Kirch.

Since the lunches began, a bottleneck in the company's paperwork has been eased by the suggested color coding of departmental forms and memos. A receptionist who was alarmed by the amount of personal mail being processed now sells stamps to employees. And one worker's complaints about her telephone led to its being fixed the next day.

"It's not necessarily that it saves the company loads of money, but the lunch lets employees know we care about what they're thinking," says Kirch. "And it makes them take their jobs and the company to heart." □

CHART: CYNTHIA DAVIS

HANDS ON

COMMUNITY RELATIONS

PLANNED PHILANTHROPY

Charity solicitation, especially those requests by the typically endless roster of local organizations, is troublesome for many growth-company CEOs. You want to be generous (you may even fear your business's reputation will be harmed if you're not), but you can't afford to give to *everybody*.

Until two years ago, that was the case at Mona, Meyer & McGrath (MMM), a Minneapolis public-relations firm. Then, says CEO David Mona, the company found what it thinks is a solution: a well-planned, well-stated program for giving.

MMM gives specified portions of pretax earnings to a few selected organizations, and makes its largest single contribution by taking on one major *pro bono* account each year.

Now, when MMM's managers are pitched by other programs, they can politely say no—citing their policy of committing themselves heavily to one account per year. "It cuts out all the hemming and hawing," says Mona. "We are spending our dollars more wisely and can decline more kindly. We can say, 'Sorry, we've made a decision and we're fully committed in that area.' Not simply, 'We aren't interested,' or, 'We don't care.' They can see we are generous." □

MANAGING PEOPLE

CONTRACTING TO PREVENT LOSS

If you run a professional services business, you're probably not surprised when employees leave and take their—and your—clients with them. Happens all the time, but it's troublesome nonetheless. Norman Ochelski, who operates his own CPA firm in Detroit, has a solution: require new hires to sign a contract stating they will pay the going market rate for clients that they swipe.

"I can't force a client to stay with my company when one of my CPAs moves on; after all, client relationships can get pretty close. But I do get fair payment when it happens," Ochelski says. He typically receives one and a quarter times the account's yearly gross billings when a CPA takes the business out the door. "Usually it's between one and two times depending on where the business is located. It's an agreement that stands up in court because the employer would be incurring a financial hardship—it's based on what the practice would sell for [on the open market]."

Ochelski has never been taken to court on the agreement, but a friend has, and he won his case. "It's not as common as it should be, given how fair and easy to implement it is. This way there are no hard feelings when we part company." □

BANKING

LETTERS OF CREDIT

Few relationships are more important to growth-company CEOs than those they build with their bankers. "It's very important to sell them all the time, because it's easier for them to call your loans when they don't know you very well," says Bruce W. Neurohr, CEO of Transamerica Energy Associates Inc., in Atlanta. One way Neurohr separates himself from the countless other members of the borrowing crowd—most of whom are trying to woo their lenders over lunch—is determinedly old-fashioned. He sends out thank-you notes.

When, for example, he gets help from his loan officer, he writes a letter of appreciation—not to the loan officer, but to the loan officer's boss. "Lots of people take their bankers to lunch, so from a banker's perspective, lunch isn't such a big deal," says Neurohr.

Letters, however, apparently are. Neurohr reports that one letter recipient told the loan officer whose service had occasioned the note, "this is the kind of company we should be doing business with." Says Neurohr: "The letters put the company in a positive light all the way up the chain of command." □

QUOTE OF THE MONTH

'The name of the game is to stay in the game. It's like poker—if you can stay at the table, you can win.'

—Richard Lord, of Lord Einstein O'Neill & Partners, on starting his first ad agency from a hotel room in 1967

MANAGEMENT

ALL PRESENT AND ACCOUNTED FOR

As a company grows, it can become tough to keep track of who's responsible for what. "You have people constantly crossing functional lines," says Thomas G. Kamp, president of Premier Computer Corp., in Oklahoma City. "It becomes easy for accountability to get lost."

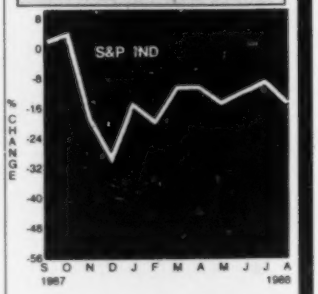
Premier, a disk-drive repair company, has grown from 25 people to about 260 in just four years. "I found myself not knowing who was responsible for ensuring proper turnaround time, for example," Kamp complains. So he devised a simple system for keeping track of each employee's accountability, including his own. At least once a year, he asks his 18 executives and managers to draw up a matrix specifying their responsibilities and those of each of the people under them. "By writing it all down, they come to own it," he says.

The matrix looks like this: across the top, employees' initials serve as column headings. Down the side are different job tasks (such as internal growth planning) or limits of authority (such as approving purchases of less than $500). After all the matrixes are complete, Kamp hands them out in a looseleaf binder. "It's a reference tool," he says. □

Reported by Leslie Brokaw, Joshua Hyatt, and Teri Lammers

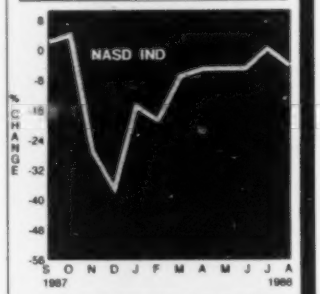
INVESTING IN GROWTH COMPANIES

INC. vs. CONSERVATIVE AVERAGES



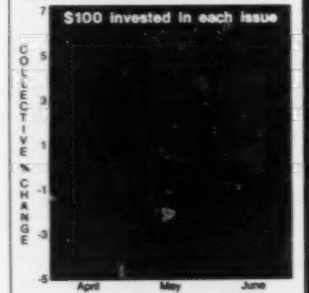
All averages start at 0 in September 1987.

INC. vs. SPECULATIVE AVERAGES



All averages start at 0 in September 1987.

IPOs IN THE AFTERMARKET



INITIAL PUBLIC OFFERINGS: JULY 1988

O-T-C sym.	Company	Business/product	Offering Size ($mil.)	Offering Price	First aftermarket bid	Underwriter
APCC	**American Power Conversion**	Mfr. uninterrupted power supplies	5.81	7.50	7⅛	Josephthal & Co.
APGG	**Apogee Technology**	Mfr. audio speakers	3.60	6.00	6½	Life Planning
ASIXU	**Asbix International**	Mfr. & mkts. tire-repair machinery	2.00	6.25[d]	7⅛	Anderson, Bryant
AUIN	**Automotive Industries**	Acquires car svc. cos.	7.50	2.50	2½	F. N. Wolf
BBGS	**Babbage's**	Operates computer chain	19.50	13.00	14¼	Alex. Brown
BYX[a]	**Bayou Steel**	Owns steel mill	49.40	13.00	12⅜	Allen & Co.
BKT[b]	**Blackstone Income Trust**	Closed-end mgmt. co.	585.00	10.00	10	Prudential Bache
BIG[b]	**Bond International Gold**	Gold mining & exploration	153.15	63.00[e]	61½	Goldman, Sachs
BRI[b]	**Burlington Resources**	Energy & resource holding co.	408.00	25.50	25½	Shearson Lehman
CSBK	**Carolina Southern Bank**	Commercial bank	5.00	10.00	10	Robinson-Humphrey
CSM[b]	**Chaparral Steel**	Steel production	81.00	15.00	15¼	Dillon Read
CFED	**Charter Federal Savings Bank**	Savings bank	3.75	10.25	10½	Ryan, Beck
CIF[b]	**Colonial Intermediate High**	Closed-end investment fund	110.00	10.00	10	Shearson Lehman
COLB	**Columbia Laboratories**	Laboratory svcs.	4.05	3.00	2⅞	Paragon Capital
LENS	**Concord Camera**	Imports, mkts., & distr. cameras	5.00	5.00	5⅛	Reich & Co.
EAFC	**Eastland Financial**	S&L	13.77	9.50	9½	Merrill Lynch
ELAS	**Electronic Assembly Service**	Provides mfr. & eng. svcs.	12.00	2.00[f]	2¼	Thomas James
EIC[b]	**Emerald Mortgage Investment**	Real-estate investment trust	80.00	10.00	10	Dean Witter
HOMG	**Homeowners Group**	Supplies prods. & svcs. to real-estate brokers	13.50	9.00	8¾	Hambrecht & Quist
[c]	**Integral Systems**	Dvlps. & installs computer hardware & software	0.50	5.00	5⅛	Wachtel & Co.
KGT[b]	**Kemper Intermediate Govt. Trust**	Closed-end fund	280.00	10.00	10⅛	Paine Webber
MFT[b]	**MFS Multimarket Total Return Tr**	Closed-end fund	150.00	10.00	10⅛	Wheat First
NHLI	**National Health Laboratories**	Operates clinical labs	39.00	10.00	9¾	Drexel Burnham
NPI[b]	**Nuveen Premium Municipal Fund**	Closed-end fund	675.00	15.00	15	Alex. Brown
ONA[a]	**Oneita Industries**	Mfr. & mkts. T-shirts	8.40	7.00	7⅛	Drexel Burnham
PBCT	**People's Bank**	S&L	11.16	8.50	8⅝	Morgan Stanley
RXN[b]	**Rexene**	Mfr. & mkts. thermoplastics	129.00	21.50	21⅛	First Boston
TUSC	**Tuscarora Plastics**	Mfr. plastic prods.	6.11	15.50	17	Parker/Hunter

Initial public offerings sold at $1 or less not included. First aftermarket bid is approximate. [a] trading on AMEX; [b] trading on NYSE; [c] no symbol; [d] units of 2 common + 1 warrant; [e] units of 5 common + 1 warrant; [f] units of 4 common + 2 warrants. Offering data source: *GOING PUBLIC: THE IPO Reporter*, a publication of The Dealer's Digest Inc., 150 Broadway, New York, NY 10038

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